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To the Board of Directors of  
Philip Morris & Co. Ltd., Incorporated:

We have examined the consolidated balance sheet of PHILIP MORRIS & CO. LTD., INCORPORATED and its wholly owned English subsidiary, as of March 31, 1942, and the consolidated statements of income and earned surplus for the fiscal year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of income and earned surplus present fairly the consolidated position of the company and its English subsidiary at March 31, 1942, and the consolidated results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, June 3, 1942.

*Lybrand Ross Brown & Montgomery*

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## BALANCE SHEET NOTES

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1. Net current assets and total net assets of the English subsidiary, translated into U. S. dollars and included in this balance sheet, were \$147,798.01 and \$244,816.89, respectively. Operations of the subsidiary for the year ended March 31, 1942 resulted in a net profit of \$8,448.47.

2. The Cumulative Preferred Stock, 4-1/4% Series is redeemable at \$105 per share on or before April 1, 1944, and thereafter at diminishing amounts (not less than \$102.50 per share), plus accrued dividends in all cases. Holders of the Cumulative Preferred Stock are entitled to the redemption prices upon voluntary liquidation and to \$100 per share plus accrued dividends upon involuntary liquidation.

Under the terms of this issue, the company is required to set aside in a sinking fund, within 80 days after the end of each fiscal year, beginning with the year ended March 31, 1942, certain amounts to be used for redemption purposes or it may use preferred stock in treasury for that purpose. The amount to be so set aside on or prior to June 19, 1942 will be \$156,450, but the company reacquired 1,500 shares of such preferred stock in April, 1942 of which it intends to apply 1,490 shares in satisfaction of the aforementioned requirement.

3. At March 31, 1942 the company had instructed certain companies, acting as its agents, to purchase leaf tobacco for it in foreign countries, the aggregate cost of which tobacco was reported to be approximately \$2,300,000. This amount is not reflected in inventories or liabilities in the balance sheet. The company believes itself adequately protected by marine and war risk insurance against losses to this tobacco while in transit, except that insurance against land war risk is not available.
4. Subsequent to March 31, 1942 the company issued 49,666 shares of Cumulative Preferred Stock, 4-1/2% Series and \$6,000,000 principal amount of Twenty Year 3% Debentures, due May 1, 1962. The proceeds of these issues and the related expenses are not reflected in this balance sheet.

On or before November 1, 1942 the company is required to pay to the Trustee for the holders of the debentures a sum sufficient to redeem on May 1, 1943 \$100,000 principal amount of debentures (at 102% of the principal amount) or it may substitute debentures for all or part of the payment. No sinking fund payments for the Cumulative Preferred Stock, 4-1/2% Series are required to be made prior to June 19, 1943.

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CONSOLIDATED STATEMENT of INCOME  
for the year ended March 31, 1942

Net sales		\$112,565,200.82
Cost of sales		<u>87,406,322.29</u> <sup>11%</sup>
Gross profit from operations		25,158,878.53 <sup>13%</sup>
Shipping, selling, general and administrative expenses		<u>10,903,919.50</u> <sup>9%</sup>
Net profit from operations		14,254,959.03 <sup>13%</sup>
A d d:		
Dividends received	\$ 92,525.33	
Other income	<u>100,844.16</u>	<u>193,369.49</u>
		14,448,328.52
Deduct:		
Interest paid	36,407.36	
Provision for additional compensation to officers and employees, in accordance with authorization of stockholders at meeting of July 20, 1937	<u>408,138.33</u>	<u>444,545.69</u>
Net income, before provision for federal taxes on income		14,003,782.83
Provision for federal taxes on income, including \$2,521,500 for excess profits tax		<u>6,211,217.40</u>
Net income for the year		<u>\$ 7,792,565.43</u>

Note: Provision for depreciation amounted to  
\$335,235.74 in the year ended March 31, 1942.

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CONSOLIDATED STATEMENT of EARNED SURPLUS  
for the year ended March 31, 1942

Balance, March 31, 1941		\$13,943,674.64
Add, Net income for the year ended March 31, 1942		<u>7,792,565.43</u>
		21,736,240.07
Deduct:		
Cash dividends declared:		
On Cumulative Preferred Stock, 4-1/4% Series	\$ 633,231.42	
On Common Stock	<u>4,469,928.50</u>	\$5,103,159.92
16 full shares of Common Stock issued in exchange for 32 Common Stock Dividend Scrip Certificates, Series A, which certificates were issued in connection with stock dividend paid November 15, 1938, at par value		<u>160.00</u> <u>5,103,319.92</u>
Balance, March 31, 1942		<u>\$16,632,920.15</u>

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